

LRC Executive Board

Investment Council Update

April 14, 2026

- **Assets managed**
 - SDRS – FY 2026 estimated return through 3/31/26 = 6.30%
 - Trust Funds – FY 2026 preliminary estimated returns through 3/31/26 range from 4.53% to 5.09%

- **529 Scholarship Update – Transfers to Dakota Corps Scholarship Program**
 - Last year (July 2025) transfer \$ 836,669
 - Cumulative transfers since Sept 2007 \$21,377,026
 - Estimated transfer for July 2026 \$ 800,000

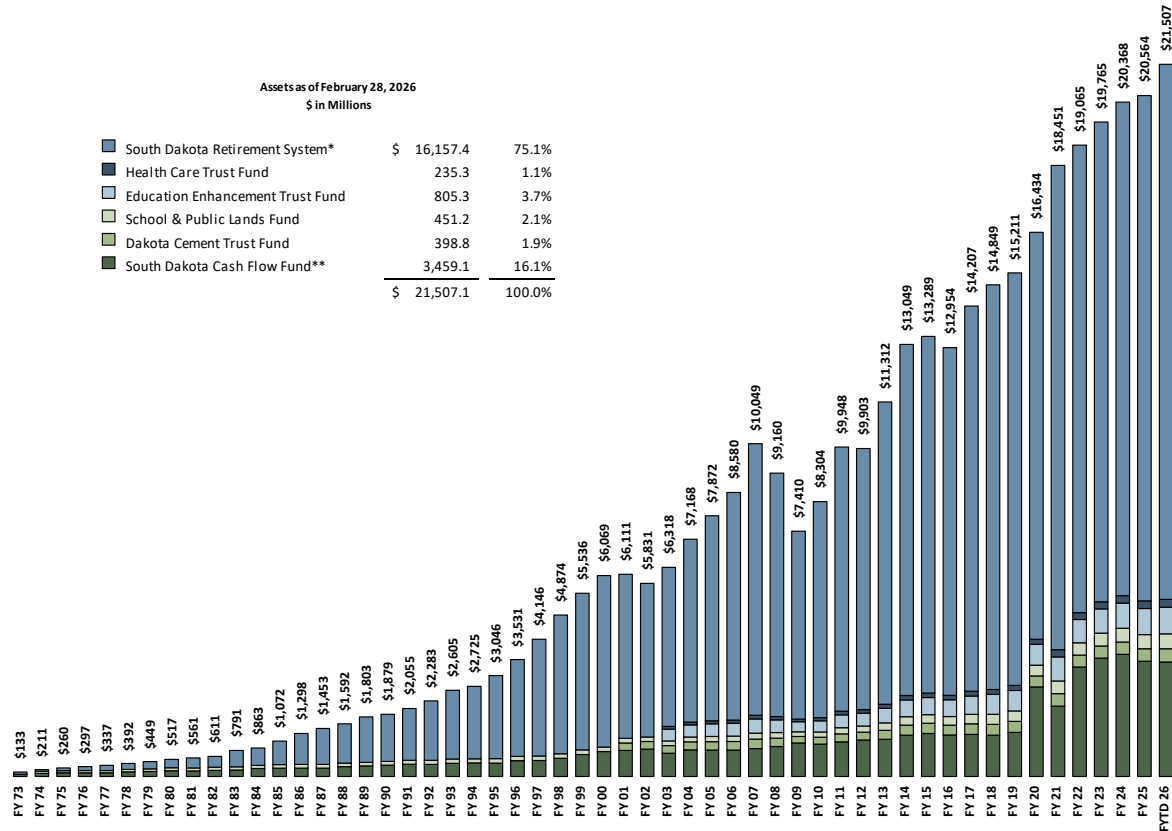
- **Council Role & Selection**

- **Investment Officer FY 2027 Compensation**

- **Compensation Methodology**

- **Leadership Development**

Assets



*The South Dakota Cement Plant Retirement Fund (CPRF) was consolidated into the South Dakota Retirement System (SDRS) on April 1, 2014, per SDCL 3-12C-1642. For purposes of this exhibit, CPRF Assets for Fiscal Years 1973 - 2013 are included with SDRS.

**South Dakota Cash Flow Fund assets include Coronavirus relief stimulus funds from the federal government for Fiscal Years 2020 – 2025 and FYTD 2026.

Trust Funds

As of 2/28/26 (unaudited)

Health Care Trust (established April 2001)

Principal as of 02/28/26	\$ 135,631,024
Principal as of 02/28/26 adjusted for inflation	\$ 216,634,161
Fair Value (FV) as of 02/28/26	\$ 235,353,934
Difference - FV less principal	\$ 99,722,910
Difference - FV less infl. adj. prin.	\$ 18,719,772
Fiscal year to date return	6.76%
Longterm expected mean return	5.65%
Payout of 4% plus expected inflation of 2.5%	6.50%
Expected return cushion/shortfall	-0.85%
Distribution for FY 27 (July 1, 2026)	8,727,324
Distribution for FY 26 (July 1, 2025)	8,655,091
Distribution for FY 25 (July 1, 2024)	7,925,672

Asset Allocation	FY 26	
	Current	Benchmark
Public / Private Equity	29.3%	50.1%
Real Estate	10.5%	11.0%
High Yield Corp Debt	3.9%	7.0%
Investment Grade Debt	12.8%	30.0%
Cash / Money Market	43.5%	1.9%
Total	100.0%	100.0%

Law allows up to 4% of the 16 quarter average to be distributed as long as principal is not violated as of December 31 each year.

Education Enhancement Trust (established April 2001)

Principal as of 02/28/26	\$ 465,148,664
Principal as of 02/28/26 adjusted for inflation	\$ 764,834,811
Fair Value (FV) as of 02/28/26	\$ 805,283,204
Difference - FV less principal	\$ 340,134,540
Difference - FV less infl. adj. prin.	\$ 40,448,393
Fiscal year to date return	6.34%
Longterm expected mean return	5.65%
Payout of 4% plus expected inflation of 2.5%	6.50%
Expected return cushion/shortfall	-0.85%
Distribution for FY 27 (July 1, 2026)	29,294,782
Distribution for FY 26 (July 1, 2025)	28,652,310
Distribution for FY 25 (July 1, 2024)	27,383,330

Asset Allocation	FY 26	
	Current	Benchmark
Public / Private Equity	28.9%	50.1%
Real Estate	10.3%	11.0%
High Yield Corp Debt	3.8%	7.0%
Investment Grade Debt	12.9%	30.0%
Cash / Money Market	44.1%	1.9%
Total	100.0%	100.0%

Law allows up to 4% of the 16 quarter average to be distributed as long as principal is not violated as of December 31 each year.

Trust Funds

As of 2/28/26 (unaudited)

Dakota Cement Trust (established April 2001)

Principal as of 02/28/26	\$ 238,000,000
Principal as of 02/28/26 adjusted for inflation	\$ 440,811,538
Fair Value (FV) as of 02/28/26	\$ 398,827,476
Difference - FV less principal	\$ 160,827,476
Difference - FV less infl. adj. principal	\$ (41,984,062)
Fiscal year to date return	5.87%
Longterm expected mean return	5.65%
Payout of 4% plus expected inflation of 2.5%	6.50%
Expected return cushion/shortfall	-0.85%
Distribution for FY 26 (May/June 2026)	15,079,720
Distribution for FY 25 (May 15, 2025)	15,057,004
Distribution for FY 24 (May 15, 2024)	14,668,289

School & Public Lands

Inflation protection mandated by Constitutional Amendment -
(payout is reduced by inflation if inflation not offset by realized net gains)

Fair Value as of 02/28/26	\$ 451,204,107
Fiscal year to date return	6.62%
Longterm expected mean return	5.65%
Distribution for FY 26 K-12 (February 6, 2026)	15,707,693
Distribution for FY 25 Board of Regents (June 23, 2025)	4,000,581

Asset Allocation	FY 26	
	Current	Benchmark
Public / Private Equity	27.7%	50.1%
Real Estate	11.1%	11.0%
High Yield Corp Debt	3.9%	7.0%
Investment Grade Debt	12.9%	30.0%
Cash / Money Market	44.4%	1.9%
Total	100.0%	100.0%

Constitution allows 4% of the lesser of
1) the 16 quarter average balance or
2) the current December 31 fair value, be distribute
by June of the following year.

Asset Allocation	FY 26	
	Current	Benchmark
Public / Private Equity	29.3%	50.1%
Real Estate	9.9%	11.0%
High Yield Corp Debt	3.9%	7.0%
Investment Grade Debt	12.8%	30.0%
Cash / Money Market	44.1%	1.9%
Total	100.0%	100.0%

Investment Council Role

- Appoint & Oversee State Investment Officer
- Maintain a bottom-line oriented businesslike environment
- Approve investment policy
 - Benchmarks and asset allocation guidelines
 - Oversight of investment methodology
 - Oversight of external partners
- Monitor compliance
 - Audit committee
 - Conflict of Interest Policy
- Approve annual budget and long-term plan (then goes to Executive Board, Governor, Appropriations)
 - Compensation committee approves compensation framework
 - Recommend Investment Officer compensation to Executive Board of the LRC

Importance of Council Selection

- Council patience and steadfast support is essential to allow the investment team to maintain a long-term focus and persevere through difficult periods
- Essential to select Council members that believe in a long-term approach
- Council success also depends on patience of all South Dakota policy-makers
- Selection of highly respected Council members can help inspire confidence in the Council's oversight of the investment team and budget

Investment Officer FY 2027 Compensation

Investment Council Motion 4/8/2026

Recommendation to LRC Executive Board for Investment Officer FY 2027 Compensation:

KELLY MEINERS MOVED, SECONDED BY CATHY CLARK, THAT THE INVESTMENT COUNCIL RECOMMEND TO THE LRC EXECUTIVE BOARD THAT TOTAL COMPENSATION FOR THE STATE INVESTMENT OFFICER FOR FY 2027 BE COMPRISED OF FY 2026 BASE SALARY INCREASED BY STATE SALARY POLICY AND CONTINUATION OF THE INVESTMENT PERFORMANCE INCENTIVE PLAN, WITH ANY EARNED INCENTIVE TO BE PAID FOLLOWING COMPLETION OF THE AUDIT. MOTION PASSED UNANIMOUSLY.

Compensation Overview

- Cost efficient due to internal management capabilities
 - Securing team to preserve internal capabilities is best chance to remain cost efficient
 - Internal cost .1% with expected average incentives
- Continued success dependent on high caliber team
 - Internally manage most assets using internally generated research
- Future team depends on retention of talent pipeline and trainers
 - Develop internally as cannot compete for top tier experienced talent
- Compensation plan aligned with goal of adding value over long term
 - Motivate superior long-term performance and retain successful staff

Compensation Overview, cont'd

- **Compensation target**
 - Council target is 70% of cost-of-living adjusted median industry pay to balance getting a good deal for South Dakota without losing the good deal if we cannot keep our people
 - Incorporates performance incentives
 - Compensation study updated approximately every three years

- **Compensation study 2013**
 - Study showed compensation had fallen to 55%
 - Expanded incentive compensation plan as opposed to adjusting base compensation
 - Incentives expanded to include longer term and stretch incentives and expected to average 80% (0% to 200%) -- This reached 95% of 70% target
 - Incentives aligned with the goal of adding value and only paid if add value

- **Compensation study 2016 and 2019**
 - Indicated moderate slippage, but not sufficient to request adjustment

- **Compensation study 2022**
 - Indicated further slippage to 10% threshold just sufficient to request adjustment
 - Increased incentive maximum to 225% focusing on 10 yr. performance including stretch component - This reduced shortfall by half. State Investment Officer incentive maximum remained at 200%.

Investment Performance Incentives

Aligns compensation with goal of adding value

- **Encourage superior performance**
 - Counters underperformance career risk that can discourage efforts to add value
 - Multiyear timeframes encourage investing for the long term
- **Encourage retention of successful staff**
 - Team is most attractive to other organizations when winning
 - Shifts compensation higher when people more sought after and down when losing
- **Incentives paid only for added value**
- **Important to encourage adding value in good and bad markets**
 - Added value in down markets more important than in up markets
 - Encourages adding value by reducing risk when markets expensive

Target Discount Rationale

- **Need top caliber people long term**
 - Unsuccessful people or job hoppers always available but no bargain, even if free
 - Compensation is too low to recruit veteran high-performers from elsewhere
 - Must develop team internally by training cream of crop local University graduates
 - Takes 15 to 20 years to fully develop seasoned talent
 - If lose talent pipeline or trainers, will jeopardize handoff to next generation

- **Our past history and observation of others suggest 70% target**
 - Only way to know for sure how large discounts can work is to risk damaging team
 - 50% discount levels in past led to difficulties
 - 30% discount believed significant relative to other high-end professionals
 - Industry subject to intense performance measurement with significant consequences for winning and losing which intensifies desire for financial security
 - Discounts for top SDIC performers may be much larger as industry pay for top quartile performers can be double the median